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DEPARTMENT FOR EUR/NCE; PLEASE PASS TO NSC FOR ADAM STERLING

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SUBJECT: FURIOUS MANEUVERING ON ANTI-CORRUPTION: PARTIES APPROACH REFERENDUM ... AND CONSENSUS?

REF: BUDAPEST 1723 AND PREVIOUS

Classified By: P/E COUNSELOR ERIC V. GAUDIOSI; REASONS 1.4 (B) AND (D)

¶1. (C) Summary: Prime Minister Gyurcsany has tabled a broad array of anti-corruption reforms before Parliament ... with the explicit threat of moving to a public referendum in the absence of their support. Despite continued complaints within his governing coalition that he is trying to divert attention from the ongoing Zuschlag scandal (reftel), the MSzP has given its grudging support on key elements of his proposal and even endorsed some of the parallel recommendations from the opposition. Sources close to the PM indicate that he feels confident enough to throw down the gauntlet on corruption. He is also clever enough to see the potential political advantage in drowning out the opposition's planned referendum. If the parties refuse to back down, public interest - and public expectations of progress - could continue to rise. Perhaps inadvertently, the parties are now actively debating issues which were the excessive province of the International Community and foreign investors a few short months ago, and we will continue to promote progress on reforms as a national priority rather than a political pretext. End Summary.

SOME CONCILIATION; SOME ESCALATION

¶2. (C) Furious maneuvering continues in response to rival (albeit broadly consistent) anti-corruption proposals from the government and opposition (reftel). Prime Minister Gyurcsany has presented Parliament with a broad package of measures spanning five separate bills (and has also submitted 20 referendum questions to the National Election Commission (NEC) as a first step toward an appeal to the public in case his measures fail to receive the necessary two-thirds support in Parliament.

¶3. (C) Gyurcsany's moves are widely seen by observers as an attempt to lift the debate beyond the immediate political problem of the Zuschlag scandal (ref a) and toward the broader issue of systemic reforms. Although this tactic is consistent with his successful effort last fall to shift the public's focus from his "lies" speech to the question of constitutional order, polls indicate his efforts to date have failed to dislodge the scandal as the issue of principal interest to the public.

¶4. (C) Moreover, his latest moves have further aggravated many within the coalition. Members of the SzDSz continue to publicly distance themselves from a potential referendum, and ranking members fume to us privately that "FIDESZ is right: the PM is trying to distract attention from his own scandals (reftel)" at the risk of "upsetting the political elite." Another MP expressed confidence that Parliament could dig in its heels and take "at least a year" to respond to any referendum. (Note: Given the ambiguity of Hungarian law,

Parliament's obligation to respond to any referendum is unclear. End Note.)

15. (C) Within the MSzP ranks, there is talk of forming a "local government caucus" to represent the MPs who also hold local and regional offices. Combined with serious discussion of a gender quota which would require that fifty percent of candidates standing for election from party lists be women, talk of limiting access to elected offices leaves many MPs concerned that there won't be a chair for them when the music stops. As one resident diplomat here commented, "it's almost as if the Prime Minister doesn't like his own party." Indeed, one MSzP MP reportedly became so agitated in a recent meeting with Gyurcsany on this issue that a doctor was called to examine him for a heart attack. Another commented publicly that "the Prime Minister works for the Parliament; Parliament does not work for the Prime Minister."

NOT STUCK ON GYURCSANY, BUT STUCK WITH HIM?

16. (C) That said, the party has given grudging support to the PM's latest package. In a closed meeting October 16, MSzP MPs) minus those who are also mayors) expressed their support for ending the practice of holding multiple offices by 2011. They have also endorsed in principle FIDESZ's attempts to revive a long-standing proposal to reduce Parliament from its current 386 members to 200.

17. (C) Tibor Desseweffy, a center-left intellectual close to the PM, sees Gyurcsany's actions as a sign of strength) not desperation. He believes the Prime Minister is "tired of being a progressive liberal politician leading a party that is neither," and sees the latest package of anti-corruption measures as a shot across the bow of the MSzP's

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traditionalists. Although he predicts the PM will continue to "keep a close eye on (Defense Minister) Szekeres and (Cabinet Minister) Kiss," Desseweffy commented that "the PM knows he has no serious rivals (and so does the rest of the party." Deputy Speaker and MSzP MP Mandur admits as much, ruefully noting that "we chose Gyurcsany because we felt he could match Orban's ability to communicate directly to the public (and now that's just what's he's doing."

18. (C) Desseweffy also sees a more comfortable and confident PMO behind the recent initiative, giving credit to the senior staff Gyurcsany brought in over the summer months to upgrade the office's policy and communications team (if not its political consultations). The word has clearly gone out from the PMO to prioritize anti-corruption initiatives, with working-level Ministry representatives on our Transparency Working Group telling us candidly that they have been given express orders to engage.

OPPOSITION SEES OPPORTUNITY

19. (C) The opposition tells a different story. Center-right intellectual Tamas Magyarics tells us talk of Kiss replacing Gyurcsany as Prime Minister continues, and FIDESZ parliamentary faction leader Tibor Navracsics indicates that his party has had contacts regarding a potential coalition with the SzDSz. (Comment: This is a long shot but not an impossibility. Both parties trace their roots to Hungary's dissident movement, but have diverged sharply over time and now frequently engage in rhetorical clashes in the press and in Parliament. Even if it did occur, however, it would not give FIDESZ the votes to secure a governing majority. End Comment.) Navracsics and others have also returned to last year's proposal regarding a "government of experts" to succeed Gyurcsany pending the 2010 elections.

110. (C) FIDESZ is also stepping up preparations for its referendum drive, and collected over 300,000 signatures in the first 48 hours of its campaign. That said, referendum campaign still lacks a high-profile political figure as its

leader. Moreover, there is concern among the opposition that Gyurcsany's 20 questions would drown out their original questions, which have focused intentionally on the imposition of fees for education and medical services. FIDESZ leaders have accordingly expressed their readiness to submit their 8-point program for a public referendum if the PM does so with his 7 points. Their preference, however, appears to be for negotiations among the parties that would lead to a compromise - and keep Gyurcsany's proposals from going to a public referendum. Magyarics notes that what SzDSz President Koka called "the referendum tsunami" reflects the degree of the political gridlock here but also risks "turning Hungary from a representative democracy into a plebiscite."

¶11. (C) Civil servants responsible for confirming the signatures FIDESZ will submit confide to us that the process will put them) uncomfortably) in the limelight. Although the NEC will have 45 days to complete its review, officials there believe "working too quickly will make us look as if we are favoring the opposition (and working too slowly will make it seem as if we are favoring the government." (Note: By contrast, the government would not require the public signatures to move forward on its referendum questions, and could thus attempt to hitch its questions to the FIDESZ referendum when it is scheduled. End Note.) The NEC's timing will factor significantly in the scheduling of the referendum, as most analysts believe a quick turn-around would allow Parliament to act before its winter recess, thus paving the way for President Solyom to schedule the date of the referendum in early 2008.

DARING AND DOUBLE-DARING

¶12. (C) Desseweffy believes that the parties are effectively daring each other to blink first with respect to anti-corruption measures. He sees FIDESZ's call to reduce the size of Parliament as an attempt to foment dissatisfaction within the MSzP, and candidly admits that Gyurcsany's call to make party financing public is likely a challenge to Orban's reported control over FIDESZ's coffers as the party works to refill coffers running low after six years out of power. Some of the recommendations on both sides, such a proposed ban on all political advertising, are likely non-starters but attest to the pressure the parties feel to take the high ground on reform.

COMMENT: STUMBLING TOWARD THE MIRROR?

¶13. (C) As one Hungarian political scientist observed with regard to the lack of self-examination since the system

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change of 1990, "the problem is that those who refuse to look in the mirror eventually refuse to bathe." Whatever the sincerity of their intentions, in debating the issue of corruption the parties are taking a step toward the mirror now. Their respective ideas) ranging from public disclosure of elected officials' income to stronger oversight on party financing - are broadly constructive and broadly complementary. Indeed, the public may not see a need to choose from among them. They may, however, expect the political elite to move forward. Students with whom we've met recently, for example, tell us that they're "not interested in politics as usual" but that they do support efforts to "clean our own house." Nor should the diplomatic community have to choose sides. The debate has moved significantly in the past months, with the parties now joining in discussing topics that were perceived as only of interest to foreign embassies and foreign companies just months ago. We will continue our efforts to advocate for reform to become a national priority rather than a political football by encouraging the parties to follow through on this latest round of rhetoric. End Comment.